TESTIMONY OF
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Before the Joint Standing Committee on Taxation
Hearing Date: *May 16, 2025*

LD 1879 – "*An Act to Support Maine's Agricultural Economy by Increasing Revenue from the Corporate Income Tax and Providing Property Tax Exemptions*"

Senator Grohoski, Representative Cloutier, and members of the Taxation Committee – good morning, my name is Michael Allen, Associate Commissioner for Tax Policy in the Department of Administrative and Financial Services. I am testifying at the request of the Administration Against LD 1879, "*An Act to Support Maine's Agricultural Economy by Increasing Revenue from the Corporate Income Tax and Providing Property Tax Exemptions.*"

This testimony is limited to the bill as it affects taxation and Maine Revenue Services. This proposal would move Maine's top marginal State corporate income tax rate from 5th highest in the nation to 2nd highest. For tax years beginning on or after January 1, 2026, the bill imposes an additional tax equal to 1.07% on income in excess of $3,500,000 for any corporation or group of corporations that are subject to the Maine corporate income tax under 36 M.R.S § 5200(1-A).

Revenue from the additional tax must first be used to fully fund the dairy stabilization support fund under 7 M.R.S. § 3153-B. Any excess funds must be distributed in the following priority: 1) $5,000,000 to the Dirigo Business incentives program under 36 M.R.S. § 5219-AAA to fund the credit for expenditures on agricultural businesses; 2) $1,000,000 to fund the proposed Agricultural Building [Property Tax] Exemption created under Section 2 of the bill; 3) $5,000,000 to the Maine Agriculture, Food and Forest Products Investment

Fund under 7 M.R.S. § 320-B; 4) $2,000,000 to the Business Recovery and Resiliency Fund enacted in 2023 to be used to benefit the agricultural industry; 5) $1,000,000 to the Agricultural Marketing Loan Fund under 7 M.R.S. § 1023-J; and 6) $1,000,000 to the Dairy Improvement Fund under 10 M.R.S. § 1023-P. Any remaining balance must be transferred to the General Fund.

For tax years beginning on or after January 1, 2018, a taxable corporation with nexus in Maine is subject to income tax at the following rates:

If the Net Income Is:	The Tax Is:
Not over $350,000	3.5% of the income
$350,000 but not over $1,050,000	$12,250 plus 7.93% of the excess over $350,000
$1,050,000 but not over $3,500,000	$67,760 plus 8.33% of the excess over $1,050,000
$3,500,000 or more	$271,845 plus 8.93% of the excess over $3,500,000

For property tax, farmland is taxed at its current use, rather than its highest and best use under the Farm and Open Space Tax Law Program pursuant to 36 M.R.S. §§ 1101 – 1121 and Art. IX, § 8 of the Maine Constitution. Agricultural buildings are not eligible for current use taxation under the Farmland Program. This bill creates a separate property tax exemption for agricultural buildings.

The Administration notes the following technical concerns regarding the corporate income tax provisions:

- Section 1 of the bill should be amended to require the additional computed tax to be apportioned pursuant to 36 M.R.S., chapter 821, consistent with such requirements under 36 MRSA §§ 5200(3) and 5200(4).

- Imposing an additional tax instead of increasing the current tax rate or enacting a new tax bracket complicates the tax structure and may have additional unforeseen consequences.
- The bill does not provide an annual schedule by which excess revenues are determined and when distributions must be made to the various programs under proposed 36 MRSA §§ 5200(7)(B) and 5200(7)(C). Nor does it provide guidance on how excess revenue should be determined. The bill should also provide procedures to facilitate the transfer of revenues as proposed.
- Proposed 36 MRSA § 5200(7)(C)(1) is unnecessary and should be removed from Section 1 of the bill. Credits claimed under the Dirigo Business Incentives program reduce General Fund revenue.
- The bill does not create definitions or thresholds for what constitutes "reconstruct[ion]" or "renovat[ion]." This should be clarified.

The Administration also notes the following technical concerns regarding the property tax exemption provisions:

- Exemptions based on use typically require that property be used "primarily or predominantly used" for an exempted purpose. It is unclear whether this language was intentionally excluded.
- The bill limits the time that property is eligible for the exemption to ten years. This limit is unique among property tax exemptions and may create some confusion for taxpayers and assessors in implementation.
- It is unorthodox to place a property tax exemption outside of Part 2 or Chapter 105 of Title 36.
- It is unclear how the funding structure of the property tax exemption would impact municipal reimbursement. For example, it is not clear

where funds would come from if the $1,000,000 appropriated was not sufficient to fulfill the state's 100% reimbursement obligation.

The preliminary estimated fiscal impact is an annual corporate income tax increase of over $50 million. The fiscal impact of the property tax exemption is under review.

The preliminary estimated administrative costs are under review. One-time computer programming and related systems testing costs are required to implement the additional corporate income tax rate and update accounting systems to distribute the revenue generated by the additional tax. The property tax exemption will result in additional administrative and programming costs as well.

The Administration looks forward to working with the Committee on the bill; representatives from MRS will be here for the Work Session to provide additional information and respond in detail to the Committee's questions.